

**CITY OF SAN DIEGO  
M E M O R A N D U M**

DATE: May 11, 2006

TO: Council President and City Council

FROM: Jay M. Goldstone, Chief Financial Officer

SUBJECT: Technical Corrections to Mayor Sanders' Proposed Fiscal Year 2007  
Budget of April 14, 2007

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This memorandum discusses recommended changes to the Mayor's proposed fiscal year 2007. These changes are twofold in nature. The first is to move benefit related appropriations into the proper line-item account, while the second is to make corrections to specific budgets. Both are described in greater detail below.

As discussed several times prior to the release of the proposed budget and during the joint Budget and Finance Committee/City Council budget hearings, the fiscal year 2007 Proposed Budget formally implements a "vacancy factor" that recognizes normal staff turnover and the fact that most departments do not require the full funding for every authorized position. This not only reduces the budget for salaries, but also for related benefits. When applying the vacancy factor during the preparation of the budget, there were a few benefit related categories that were not reduced to reflect the vacancy factor. These include:

1. The City's share of the employee's portion of the SDCERS annual contribution or \$1,355,272;
2. The annual allowance for employee health care, also known as flexible benefits or \$4,060,337;
3. Premium payments for Long Term Disability Insurance or \$501,642;
4. The City's match of the employee's contribution into the Supplemental Pension Savings Plan or \$1,500,376; and
5. The rate charged to each department to cover the cost of workers' compensation or \$3,549,227.

The projected budget savings for these items totals \$10,966,854 in savings. These costs are Citywide and thus impact multiple funds.

In addition to these savings, there were a number of appropriations that were not included in the Proposed Budget, even though they were discussed by the Mayor as part of his fiscal recovery plan and budget transparency. Some of these items were identified by the Independent Budget Analyst Office and the Mayor's Office agrees to include as part of this technical correction, some were identified as oversights during the budget deliberation and some were identified through our own recent analysis. Two of the corrections involve post employment medical expenses.

Recently the City completed an actuarial valuation of its post employment health care insurance liability. It was determined that as of June 30, 2005 the liability stood at \$978 million. The Mayor's budget anticipated budgeting approximately \$21 million in fiscal year 2007 to cover the projected fiscal year 2007 cost, along with \$5 million to establish a trust fund to begin funding the City's long term exposure for post employment health care. Only \$17 million was actually budgeted for the current year expense, and the \$5 million allocation to the trust fund for the post employment health care liability was left out of the budget. The actual increase to the budget for both of these adjustments (\$4.5 million for the fiscal year 2007 cost and \$5 million for the post- retirement health care trust fund) is \$9,579,683.

The net impact of these corrections (the approximately \$11 million in savings from the corrections to the fringe accounts and the addition of the employee retirement health care costs, both the current year and trust fund allocation of \$9.6 million) results in a \$1,387,171 savings to the budget. Of this amount, \$883,547 represents a savings to the General Fund and \$503,624 represents savings to non-General Fund Departments.

These corrections are summarized by fund and by department in **Attachment 1**.

#### **OTHER CORRECTIONS**

In addition to the above, there are a number of other corrections and/or adjustments that the Mayor recommends that the City Council incorporate into the proposed budget. These include:

1. New Facilities – Several new facilities will open in fiscal year 2007. With the exception of the Northwest Police Facility, money was to be included in the fiscal year 2007 to provide funding to cover projected staffing and operating costs. While funding was requested by the Parks and Recreation Department, funding was unintentionally omitted from the Proposed Budget. It is recommended that **\$1,917,940** be included in the fiscal year 2007 budget to cover the cost of these facilities.
2. Ethics Commission – With the implementation of the vacancy factor, a decision was made not to apply this factor to any department with less than 10 full time equivalent (fte) positions. In the final adjustments prior to the release of the budget, a vacancy factor was applied to the Ethics Commission budget in error. It is recommended that **\$276,340** be restored to this budget.
3. Take Back the Streets – Grant funding for this program contracted through Alpha Project stops at the end of fiscal year 2006. It is recommended that **\$300,000** be added to the proposed budget to replace the lost grant funds in the Environmental Services Department, Resource Management General Fund.
4. Gang Commission –Additional funding of **\$62,194** is recommended for the Community Development Department to add a 1 full time equivalent Disability Services Aide, additional salary and fringe, and other non- personnel funding support.



5. Graffiti Control- Graffiti Removal on private property has been budgeted in the Fiscal Year 2007 Proposed Budget as an expense in Neighborhood Code Compliance Department (NCCD) at **\$230,000** to cover the contract NCCD has with Urban Corps. The fiscal year 2007 budget for the Graffiti Control Program in its entirety is \$1,020,895, an amount that includes the \$230,000 Urban Corps Contract) The remaining budget of \$790,895 is for personnel and non-personnel expenses, including graffiti removal on public right-of-ways. Therefore, there is no change recommended for the fiscal year 2007 budget.
6. Employee Pick-up – On May 8, 2006, the City Council approved the second reading of an ordinance which authorizes the securitization of the City's Tobacco Settlement Revenue (TSR). This transaction is the mechanism to leverage a portion of the employee's pick-up contribution to SDCERS. It was discussed during the Council deliberation on this item that a dollar-for-dollar transfer from the employee pick-up account would be included in the City's budget to backfill the loss of TSR. The recognition of this revenue was omitted from the budget. Given the amount of TSR received in fiscal year 2006 (which is appropriated in fiscal year 2007), **\$9,334,180** in revenue should be included in the Proposed Budget. As discussed below, a portion of these funds will be necessary cover some of the increases to the April 14<sup>th</sup> Proposed Budget that is in excess of the **\$883,547** in General Fund savings described above. The balance of the additional revenue should be placed in the City's General Fund Unappropriated Reserve to replenish dollars taken from the Reserve during fiscal year 2006 and to begin the restoration of a healthier reserve level.
7. Pension Obligation Bonds – Pension Obligation Bonds (POBs) continue to be an integral part of the Mayor's Fiscal Recovery Plan. Both the proceeds from POB's, along with the anticipated contribution to SDCERS have been included in the April 14, 2006 Proposed Budget. Given the fact that the proposed sale of POBs will not occur until after the City issues its fiscal years 2003, 2004 and 2005 Comprehensive Annual Financial Reports (CAFRs) and the fact that whenever the City issues POBs it will require a specific vote of the City Council separate and apart from the budget process, the Mayor concur with the IBA's suggestion that both the revenues and appropriations related to the POB's (**\$374,000,000**) be removed from the Proposed Budget.
8. The **net amount** for additional technical corrections and adjustments totals **\$12,111**.
9. **Unappropriated Reserve** In order to begin rebuilding the City's General Fund Reserve to a level that will help strengthen the City's credit rating once audited financial statements can be released, it is recommended that 100% of the net increase in General Fund revenues based upon the above proposed transactions be deposited into the Unappropriated Reserve. This comes to **\$7,803,462**.

To reflect these recommended changes and to show the accumulative impact these changes have on individual departments, staff is preparing a second Supplemental Budget document which will be distributed under separate cover.

Staff will be prepared to further discuss these changes at Monday's City Council.

This has been an interesting transition year. There were so many moving parts including the transition to the Strong Mayor form of governance, the number of corrections/improvements being made to the budget in order to more accurately reflect anticipated budget expenditures and revenues, the shortened time period in which to deliver the budget to the City Council for deliberations, and the challenges faced because of the reduced staffing in the budget office.

Thank you for your consideration and understanding.



**FY 2007 Proposed Budget Technical Corrections**  
**(Does not include recommended changes from the IBA Office)**

**General Fund**

Department	Action	FTE	PE	NPE	Total	Revenue
Business & Grant Administration	<b>Restructuring:</b> Reversal of previous addition of 1.00 Payroll Specialist to the Administration staff.	-1.00	\$ (61,962)	\$ -	\$ (61,962)	\$ -
City Auditor and Comptroller	<b>Restructuring:</b> Transfer 1.00 Accountant III from Auditor to Office of Ethics & Integrity.	-1.00	\$ (97,992)	\$ -	\$ (97,992)	\$ -
City Council - All Districts	<b>Adjustments</b> ranging from \$4K to \$5K to balance each Council Office to prescribed \$990K budgets.	0.00	\$ 4,659	\$ -	\$ 4,659	\$ -
Citywide Program Expenditures	<b>Transfer</b> from General Fund for revenue source in Special Promotional Programs.	0.00	\$ -	\$ 11,469	\$ 11,469	\$ -
Community & Legislative Svcs	<b>Restructuring:</b> Convert 1.00 Program Manager from 1.00 Assistant Deputy Director, transfer of revenue and NPE for Bi-National Affairs, from Governmental Relations and NPE	1.00	\$ 147,721	\$ 14,669	\$ 162,390	\$ 248,803
Customer Services	<b>Restructuring:</b> Transfer Director and associated non-personnel expense from Neighborhood Code Compliance.	1.00	\$ 190,181	\$ 3,000	\$ 193,181	\$ -
E&CP - Architectural Engineering & Contracts	<b>Restructuring:</b> Reinstate 1.00 Contracts Processing Clerk transferred in error to Purchasing and Contracting. Transfer out or revenue to Purchasing and Contracting	1.00	\$ 57,437	\$ -	\$ 57,437	\$ (335,035)
General Svcs - Parking Management	<b>Restructuring:</b> Convert 1.00 Program Manager from Streets Division to Assistant Deputy Chief in Public Works Department.	-1.00	\$ (142,465)	\$ -	\$ (142,465)	\$ -
Governmental Relations	<b>Restructuring:</b> Transfer out of 1.00 Assistant Deputy Director and associated revenue and NPE to Community & Legislative Services.	-1.00	\$ (166,737)	\$ (14,669)	\$ (181,406)	\$ (141,896)
Human Resources	<b>Restructuring:</b> Transfer in of Benefit Plan Services and Long Term Disability Payment Processing from Risk Management.	4.50	\$ 336,834	\$ 220,275	\$ 557,109	\$ 558,901
Neighborhood Code Compliance	<b>Restructuring:</b> Transfer out of 1.00 Director position and associated non-personnel expense to Customer Services Department.	-1.00	\$ (189,524)	\$ (3,000)	\$ (192,524)	\$ -
Office of Ethics & Integrity	<b>Adjustment</b> of \$25,000 to cover cost of statutorily mandated administrative hearings by the Citizen's Review Board of Police Practices.	0.00	\$ -	\$ 25,000	\$ 25,000	\$ -
Park & Recreation	<b>Adjustment</b> to reduce NPE to cover a supplemental .50 Word Processing Operatof	0.50	\$ 29,726	\$ (29,869)	\$ (143)	\$ -
Park & Recreation - Developed Regional Parks	<b>Transfer</b> 1.00 Park Ranger from Special Promotional Program to more appropriately budget in Developed Regional Parks Division.	1.00	\$ 88,181	\$ 100	\$ 88,281	\$ 88,281
Public Safety	<b>Adjustment</b> to Remove contribution in aid expenditure budgeted in error during the development of the Fiscal Year 2007 Proposed Budget.	0.00	\$ -	\$ (250,000)	\$ (250,000)	\$ -
Purchasing & Contracting	<b>Restructuring:</b> Transfer Water and Sewer Design Contracts Section to Purchasing and Contracting.	5.00	\$ 382,883	\$ 49,264	\$ 432,147	\$ 781,074
Purchasing & Contracting	<b>Restructuring:</b> Removal of 1.00 Contracts Processing Clerk transferred in error from Architectural Engineering and Contracts.	-1.00	\$ (57,437)	\$ -	\$ (57,437)	\$ -

**Enterprise Funds**

Department	Action	FTE	PE	NPE	Total	Revenue
Development Services	<b>Adjustment</b> to redistribute the \$4.5M Vacancy Factor across six divisions	0.00	\$ -	\$ -	\$ -	\$ -
Metropolitan Wastewater	<b>Adjustment</b> to increase 45 Day Operating Reserve to 12.5% of operating expenditures.	0.00	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -
Metropolitan Wastewater	<b>Adjustment</b> of \$2.9M to reconcile the CIP expenditures in the division operating budgets.	0.00	\$ -	\$ 2,855,751	\$ 2,855,751	\$ -
Water	<b>Adjustment</b> to reflect an increase of \$3,118 to the CIP budget and offset the 45 Day Reserve by the same amount.	0.00	\$ -	\$ -	\$ -	\$ -

## Internal Service Funds

Department	Action	FTE	PE	NPE	Total	Revenue
E&CP - Water & Sewer Design	<b>Adjustment</b> to revenue to balance with department expenditures.	0.00	\$ -	\$ -	\$ -	\$ (34,240)
E&CP - Water & Sewer Design	<b>Restructuring:</b> Transfer out of Water and Sewer Design Contracts Section to Purchasing and Contracting.	-5.00	\$ (388,931)	\$ (49,264)	\$ (438,195)	\$ (446,039)
E&CP - Water/Wastewater Field Engineering	<b>Adjustment</b> to revenue to balance with department expenditures.	0.00	\$ -	\$ -	\$ -	\$ (52,022)
Risk Management	<b>Restructuring:</b> Transfer of Benefit Plan Svcs and Long Term Disability (LTD) Payment Processing to Human Resources.	-4.50	\$ (336,834)	\$ 338,626	\$ 1,792	\$ -

## Special Revenue Funds

Department	Action	FTE	PE	NPE	Total	Revenue
C&ED - Redevelopment	<b>Adjustment</b> to revenue to balance with department expenditures.	0.00	\$ -	\$ -	\$ -	\$ 288,678
Environmental Svcs	<b>Adjustment</b> to Revenue to balance with department expenditures.	0.00	\$ -	\$ -	\$ -	\$ (1,526)
Special Promo - Commision for Arts & Culture	<b>Adjustment</b> to revenue to match the new FY07 position cost of 1.25 FTE (Associate Management Analysts).	0.00	\$ -	\$ -	\$ -	\$ (661)
Special Promotional Programs	<b>Reinstate</b> Accessible San Diego budget and <b>adjust</b> revenue from General Fund to balance Special Promotional Programs.	0.00	\$ -	\$ 11,712	\$ 11,712	\$ 11,469
Special Promotional Programs	<b>Restructuring:</b> Transfer out of 1.00 Senior Park Ranger to the Park and Recreation Department. Special Promotional Programs will still fund this position. No net impact to the General Fund or the TOT Fund.	-1.00	\$ (88,181)	\$ 88,181	\$ -	\$ -